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**Louisiana Citizens  
Property Insurance Corporation**

**Financial Statements and  
Supplementary Information  
(Statutory Basis)**

**December 31, 2013 and 2012**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date **OCT 08 2014**

# **Louisiana Citizens Property Insurance Corporation**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Louisiana Citizens Property Insurance Corporation  
Metairie, Louisiana

We have audited the accompanying financial statements of Louisiana Citizens Property Insurance Corporation (the "Company"), which comprise the statutory statements of admitted assets, liabilities, surplus and other funds as of December 31, 2013 and 2012, and the related statutory statements of income, changes in accumulated surplus and other funds, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting practices prescribed or permitted by the Louisiana Department of Insurance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and surplus of the Company as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the year then ended, in accordance with the basis of accounting described in Note 1.

**Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. As described in Note 1 to the financial statements, the financial statements were prepared in conformity with accounting practices prescribed or permitted by the Louisiana Department of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of Louisiana. Our opinion is not modified with respect to this matter.

**Report on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the basic 2013 and 2012 statutory financial statements taken as a whole. The supplementary information included in Schedules I and II as of and for the year ended December 31, 2013 is presented to comply with the National Association of Insurance Commissioners' Annual Statement Instructions and the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and is not a required part of the basic 2013 statutory statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the statutory-basis financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic statutory-basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory-basis financial statements or to the statutory-basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the statutory-based financial statements as a whole

**Restriction on Use**

This report is intended solely for the information and use of the board of directors and management of the Company and the Louisiana Department of Insurance and is not intended to be and should not be used by anyone other than these specified parties.

*Cam, Riggo & Ingram, L.L.C.*

Metairie, Louisiana  
May 30, 2014

# Louisiana Citizens Property Insurance Corporation

## Statutory Statements of Admitted Assets, Liabilities, Surplus and Other Funds

<u>December 31,</u>	<u>2013</u>	<u>2012</u>
<b>Admitted Assets</b>		
Cash and invested assets:		
Bonds	\$ -	\$ 12,498,332
Stocks	176,757,647	165,418,425
Cash and short-term investments	108,372,222	63,494,784
Total cash and invested assets	285,129,869	241,411,541
Premium receivables and agents' balances, net	22,275,223	16,013,495
Reinsurance receivable	3,235,785	14,695,694
Admitted electronic data processing equipment and software, at cost less accumulated depreciation of approximately \$16,761,027 and \$16,421,284 at December 31, 2013 and 2012, respectively	485,941	400,867
Emergency assessments receivable - 2005	824,914,781	867,259,781
Emergency assessments receivable - companies	20,000,000	18,343,139
Other receivables	118,038	126,494
Total admitted assets	\$ 1,156,159,637	\$ 1,158,251,011

(continued)

See notes to statutory financial statements.

# Louisiana Citizens Property Insurance Corporation

## Statutory Statements of Admitted Assets, Liabilities, Surplus and Other Funds (Continued)

December 31,	2013	2012
<b>Liabilities and Accumulated Surplus</b>		
<b>Liabilities:</b>		
Loss reserves	\$ 60,029,794	\$ 84,069,629
Loss adjustment reserves	6,270,567	7,414,323
Commissions payable to agents	4,166,018	3,752,606
Unearned premiums	93,358,850	96,565,900
Taxes, licenses, and fees due or accrued	3,791,325	3,580,405
Provision for reinsurance	19,830	87,909
Accounts payable and other accrued expenses	37,155,702	14,637,490
Amounts retained or withheld from others	4,457	(835)
Ceded reinsurance premiums payable, net of ceding commissions	2,260,254	762,428
Unearned tax exempt surcharge	2,963,357	2,968,810
Interest payable	3,422,780	3,597,566
Bonds payable	789,694,265	834,835,219
Liability for funds restricted for debt service (Note 7)	158,304,181	142,828,076
<b>Total liabilities</b>	<b>1,161,441,380</b>	<b>1,195,099,526</b>
<b>Commitments and contingencies (Note 14)</b>		
<b>Surplus:</b>		
Unassigned surplus (deficit)	(5,281,743)	(36,848,515)
<b>Total accumulated surplus</b>	<b>(5,281,743)</b>	<b>(36,848,515)</b>
<b>Total liabilities and accumulated surplus</b>	<b>\$ 1,156,159,637</b>	<b>\$ 1,158,251,011</b>

See notes to statutory financial statements.

# Louisiana Citizens Property Insurance Corporation

## Statutory Statements of Income

<i>Years ended December 31,</i>	<b>2013</b>	<b>2012</b>
<b>Revenues</b>		
Premiums earned	\$ 115,730,784	\$ 119,325,693
<b>Losses and underwriting expenses</b>		
Losses incurred	38,191,459	126,588,837
Loss adjustment expenses incurred	14,136,694	27,729,673
Other underwriting expenses	30,594,248	31,286,764
<b>Total losses and underwriting expenses</b>	<b>82,922,401</b>	<b>185,605,274</b>
<b>Net underwriting gain</b>	<b>32,808,383</b>	<b>(66,279,581)</b>
<b>Net investment income</b>	<b>1,624,223</b>	<b>722,674</b>
Realized gains on marketable securities	-	2,949
Interest expense	(39,151,335)	(46,127,640)
Emergency assessment income	37,682,280	45,751,607
Application and other miscellaneous fees, (expenses) income and (expenses)	6,395,333	(1,985,697)
Finances and service charges not included in premiums	657,946	674,980
Non-claim related litigation recovery (expense)	(13,000,000)	17,500,000
Net loss from agents or premium balances charged off	(131,955)	(387,390)
<b>Net income (loss)</b>	<b>\$ 26,884,875</b>	<b>\$ (50,128,098)</b>

See notes to statutory financial statements.

# Louisiana Citizens Property Insurance Corporation

## Statutory Statements of Changes in Accumulated Surplus and Other Funds

<i>Years ended December 31,</i>	<b>2013</b>	<b>2012</b>
<b>UNASSIGNED SURPLUS (DEFICIT), beginning of year</b>	<b>\$ (36,848,515)</b>	<b>\$ 15,566,738</b>
Net income (loss)	<b>26,884,875</b>	<b>(50,128,098)</b>
Change in nonadmitted assets	<b>(1,185,386)</b>	<b>(8,440,009)</b>
Change in provision for reinsurance	<b>68,079</b>	<b>88,111</b>
Tax exempt surcharge	<b>5,793,748</b>	<b>5,936,625</b>
Other gains and losses in surplus	<b>5,456</b>	<b>128,118</b>
<b>UNASSIGNED DEFICIT, end of year</b>	<b>\$ (5,281,743)</b>	<b>\$ (36,848,515)</b>

See notes to statutory financial statements.



# Louisiana Citizens Property Insurance Corporation

## Statutory Statements of Cash Flows

<i>Years ended December 31,</i>	<b>2013</b>	<b>2012</b>
<b>Operating Activities</b>		
Premiums, policy proceeds, and other considerations received, net of reinsurance	\$ 104,162,605	\$ 116,595,810
Underwriting expenses paid	(45,250,361)	(61,052,847)
Investment income received	(37,495,903)	(45,386,172)
Other revenues received	31,603,606	61,553,500
Losses and loss adjustment expenses paid	(48,331,735)	(202,102,598)
<b>Net cash provided by (used in) operating activities</b>	<b>4,688,212</b>	<b>(130,392,307)</b>
<b>Investing Activities</b>		
Proceeds from investments sold or matured	186,461,207	390,866,311
Cost of investments acquired	(185,300,428)	(284,196,770)
<b>Net cash provided by investing activities</b>	<b>1,160,779</b>	<b>106,669,541</b>
<b>Financing Activities and Miscellaneous</b>		
Payments on borrowed funds	(45,315,740)	(36,851,778)
Other cash provided	84,344,187	30,515,653
<b>Net cash (used in) provided by financing activities and miscellaneous</b>	<b>39,028,447</b>	<b>(6,336,125)</b>
<b>Net change in cash and short-term investments</b>	<b>44,877,438</b>	<b>(30,058,891)</b>
<b>Cash and short-term investments, beginning of year</b>	<b>63,494,784</b>	<b>93,553,675</b>
<b>Cash and short-term investments, end of year</b>	<b>\$ 108,372,222</b>	<b>\$ 63,494,784</b>

See notes to statutory financial statements.

# Louisiana Citizens Property Insurance Corporation

## Notes to Statutory Financial Statements

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### NOTE 1 – ORGANIZATION AND FINANCIAL STATEMENT PRESENTATION

Louisiana Citizens Property Insurance Corporation (the "Company") is a component unit of the State of Louisiana. The Company's principal business activity is to operate insurance plans which provide property insurance for residential and commercial property, solely for applicants who in good faith are entitled, but are unable to procure insurance through the voluntary market. Louisiana Citizens Property Insurance Corporation was created in accordance with provisions of Louisiana Revised Statute (LRS) 22:2293 and began operations on January 1, 2004. The Company operates solely in Louisiana. The Company operates residual market insurance programs designated as the Coastal Plan and the Fair Access to Insurance Requirements Plan (FAIR Plan). The Coastal Plan is for property insurance written on locations between the Gulf of Mexico and the Intracoastal Waterway and the FAIR Plan is for property insurance above the Intracoastal Waterway.

The Company is governed by a board of directors consisting of fifteen members, who serve without compensation. The Board consists of the Commissioner of the Department of Insurance, the State Treasurer, the chairman of the House Committee on Insurance, the chairman of the Senate Committee on Insurance or their designees, six representatives appointed by the Governor, two members appointed by the Commissioner of the Louisiana Department of Insurance, and three members appointed by the Governor.

The accompanying financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Louisiana Department of Insurance. The State of Louisiana generally requires that insurance companies domiciled in the State of Louisiana prepare their statutory basis financial statements in accordance with the National Association of Insurance Commissioners (NAIC) Accounting Practices and Procedures Manual. Such practices vary from accounting principles generally accepted in the United States of America (GAAP). The more significant variances from GAAP are as follows:

- Commissions and other costs of acquiring insurance are expensed when incurred rather than capitalized and amortized over the terms of the related policies as required by GAAP.
- Certain assets designated as "nonadmitted" are excluded from the balance sheet and are charged directly to unassigned surplus.
- Reserves for losses and loss adjustment expenses are reported net, rather than gross, of certain reinsurance recoverables.
- The statement of cash flows is presented in the required statutory format. This format differs from the format specified by GAAP which requires a reconciliation of net income to net cash flow from operating activities and supplemental schedules of noncash financing and investing activities.
- Comprehensive income and its components are not presented in the financial statements as is required by Accounting Standards Codification (ASC) 220, *Comprehensive Income*.

# **Louisiana Citizens Property Insurance Corporation**

## **Notes to Statutory Financial Statements**

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### **NOTE 1 – ORGANIZATION AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)**

- Cash and short-term investments in the statement of cash flows represent cash balances and investments with initial maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents includes cash balances and investments with initial maturities of three months or less. Also, under GAAP, short-term investments are disclosed separately from cash and include investments with remaining maturities of one year or less.

The aggregate effect on the accompanying statutory financial statements of the variations from GAAP is outlined in Note 13 to the financial statements.

### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements are prepared in conformity with accounting practices prescribed or permitted by the Louisiana Department of Insurance which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

In connection with the preparation of the financial statements, management of the Company evaluated subsequent events through May 30, 2014, which was the date the financial statements were available to be issued.

#### ***Cash and Short-Term Investments***

For the purpose of reporting cash flows, cash and short-term investments include all liquid investments with a maturity of one year or less when purchased. Short-term investments are stated at cost, which approximates fair value. The Company holds cash of approximately \$80 million and short-term investments of approximately \$28 million.

#### ***Bonds***

Bonds, which consist solely of debt securities, are recorded at admitted asset values as prescribed by NAIC valuation procedures, and are rated in accordance with current NAIC guidelines. Debt securities are stated at amortized cost using the interest method.

#### ***Equity Investments***

Equity investments held by the Company represent money market mutual funds. Shares of mutual funds, regardless of the underlying security, are considered to be shares of common stock and are reported as such as designated by NAIC reporting requirements. These funds, for fair value purposes are stated at cost, which approximated fair value.

# **Louisiana Citizens Property Insurance Corporation**

## **Notes to Statutory Financial Statements**

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### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### ***EDP Equipment and Operating System Software***

Electronic Data Processing (EDP) equipment and software purchased or developed for internal use with an original cost of over \$1,000,000 is capitalized and depreciated. EDP equipment and software with an original cost of \$17,246,968 and \$16,822,151 at December 31, 2013 and 2012, respectively, is being depreciated using the straight-line method over the software's useful life of three years, in accordance with NAIC statutory requirement. Depreciation expense for admitted EDP equipment and operating system software approximated \$339,742 and \$1,191,989 for the years ended December 31, 2013 and 2012, respectively. Depreciation expense charged to operations related to non-admitted equipment, furniture and fixtures totaled \$79,029 and \$99,355 for the years ended December 31, 2013 and 2012, respectively.

#### ***Depopulation***

The Company is required to undertake a depopulation effort annually per Louisiana state statute R.S. 22:2314. The Company accounts for premiums of depopulated policies as a reduction of direct premiums written. Losses and other costs associated with depopulated policies are assumed by the acquiring entity and thus are removed from the Company's financial statements.

#### ***Loss Reserves and Loss Adjustment Expense Reserves***

The liabilities for losses and loss adjustment expenses include an amount determined from loss reports and individual cases and an amount, based on historical data, for losses incurred but not reported. Such liabilities are necessarily based on estimates and, while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed, and any adjustments are reflected in current earnings.

#### ***Premiums***

Premiums are recorded as earned on a daily pro rata basis over the policy period. The portion of premiums not earned as of the end of the period are recorded as unearned premiums.

Premiums receivable includes amounts due from policyholders for billed premiums. Billings are calculated using the annual premiums for each policy and are paid either through an installment plan offered by the Company or in their entirety at the inception of the policy.

#### ***Market Risk***

The Company underwrites residential and commercial property insurance policies in the State of Louisiana through the Coastal Plan and the FAIR Plan. Therefore, adverse economic changes or certain changes in the insurance laws of the State of Louisiana could have a significant impact on the Company's future financial position and results of operations.

# Louisiana Citizens Property Insurance Corporation

## Notes to Statutory Financial Statements

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### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### ***Market Risk (continued)***

The Coastal Plan is for property insurance written on locations between the Gulf of Mexico and the Intracoastal Waterway. The FAIR Plan is for property insurance above the Intracoastal Waterway. Therefore, severe storm activity in any of these areas or throughout the State of Louisiana could have a significant impact on the Company's future financial position and results of operations.

#### ***Assessments***

In the event that the Governing Board of the Company determines that a deficit exists in either the Coastal Plan or the FAIR Plan, the Company may levy a regular assessment for each affected Plan in order to remedy any deficit. All insurers who become authorized and then engage in writing property insurance within Louisiana shall participate in regular assessment of the Coastal and FAIR Plans in the proportion that the net direct premium of such participant written in the State during the preceding calendar years bears to the aggregate net direct premiums written in the State by all insurers during the preceding calendar year as certified to the Governing Board by the Louisiana Insurance Rating Commission.

When the deficit incurred in a particular calendar year is not greater than ten percent of the aggregate state wide direct written premium for the subject lines of business for the prior calendar year, the entire deficit will be recovered through regular assessments. When the deficit incurred exceeds ten percent, the regular assessment may not exceed the greater of ten percent of the calendar year deficit, or ten percent of the aggregate statewide direct written premium for the subject lines of business for the prior calendar year. Any remaining deficit shall be recovered through an emergency assessment.

All persons who procure a policy of insurance of one or more subject lines of business from an insurer who becomes authorized and then engages in writing property insurance within Louisiana from the FAIR or Coastal Plans are subject to emergency assessment by the Company.

Upon determination by the Governing Board of the Company that a deficit exceeds the amount allowed to be recovered through regular assessment, the governing Board shall levy an emergency assessment for as many years as necessary to cover all deficits. The amount of emergency assessment levied in a particular year shall be a uniform percentage of that year's direct written premium for the subject lines of business. The total amount of emergency assessment levied in any calendar year will not exceed the greater of: (a) ten percent of the amount needed to cover the original deficit plus interest, fees, commissions, required reserves, and other costs associated with the financing of the original deficit, or (b) ten percent of the aggregate state wide direct written premiums for subject lines of business and for all plan accounts of the Company for the prior year, plus interest, fees, commissions, required reserves, and other costs associated with financing the original deficit. To the extent the aggregate amount of the emergency assessment will not exceed the greater of (a) or (b) above, the governing Board shall impose an emergency assessment in the amount required by any applicable loan agreement, trust indenture or other financing agreement.

# **Louisiana Citizens Property Insurance Corporation**

## **Notes to Statutory Financial Statements**

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### **NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### ***Liability for Funds Restricted For Debt Service and Related Accounting Changes***

The Commissioner of Insurance has the right to permit other specific practices that deviate from prescribed practices. During the second quarter of 2009, with agreement from the Louisiana Department of Insurance ("the Department"), the Company received permission from the Department to reclassify, as a liability, the excess emergency assessments collected that were greater than the debt service costs since the inception of the bond debt in 2006 with the cumulative excess amount being \$158,304,181 and \$142,828,076 at December 31, 2013 and 2012, respectively. The Company will record emergency assessment collections and costs through net income only in amounts sufficient to offset interest costs and amortization of bond issuance costs.

#### ***Reinsurance***

Premiums ceded under reinsurance agreements are recorded as a reduction of earned premiums. Reinsurance recoverables on unpaid losses are recorded as a reduction of losses incurred and loss adjustment expenses incurred. Reinsurance recoverable on paid losses are recorded as an asset in the accompanying statutory statements of admitted assets, liabilities, surplus and other funds. All catastrophe reinsurance payments are recorded as premiums ceded and are amortized over the life of the hurricane season for which the payments apply. Premiums ceded include catastrophe reinsurance purchased.

#### ***Income Taxes***

The Company constitutes an integral part of the State of Louisiana and its income is exempt from federal income tax pursuant to Private Letter Ruling 160165-03 from the Internal Revenue Service. Obligations issued by the Company constitute obligations of the State of Louisiana within the meaning of section 103(c)(1) of the Internal Revenue Code.

#### ***Financial Instruments***

The carrying value of cash and cash equivalents, premiums receivable, other admitted assets and other liabilities approximates fair value given their short-term nature.

Unlike private insurers that are subject to liquidation in the event of insolvency, the Company is able (and statutorily required) to levy assessments in the event of a deficit in any or all of its accounts.

# Louisiana Citizens Property Insurance Corporation

## Notes to Statutory Financial Statements

### NOTE 3 – REPURCHASE AGREEMENTS

In 2006, the Company entered into a Repurchase Agreement with Societe Generale, New York Branch to invest a portion of the Debt Service Reserve Fund. The agreement requires Societe Generale to maintain margins on collateral of 104% to 105% of market value depending on the type of collateral. Acceptable securities are GNMA, Government Agencies, mortgage backed securities of FHLMC or FHLB and U.S. Treasury securities. The custodian for the collateral is Wells Fargo Bank, N.A.

The collateral percentage, fair value and book value of collateral accepted from Societe Generale as of December 31, was:

	Collateral Percentage	Book Value	Fair Value
<b>December 31, 2013</b>	<b>105.11%</b>	<b>\$28,298,272</b>	<b>\$ 29,745,596</b>
<b>December 31, 2012</b>	<b>106.53%</b>	<b>\$28,298,272</b>	<b>\$ 30,146,609</b>

### NOTE 4 – BONDS

The amortized cost and aggregate fair value of bonds were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2012</b>				
<b>U.S. Treasury Securities</b>	<b>\$ 12,498,332</b>	<b>\$ 52,897</b>	<b>\$ -</b>	<b>\$ 12,551,229</b>

Fair value was determined based on market prices published by the NAIC Securities Valuation Office (SVO), if the securities are priced by the NAIC. When prices are not available from the NAIC, fair market value is based on the market prices provided by Interactive Data, a pricing service.

Net investment income consists of:

<i>Years ended December 31,</i>	<b>2013</b>	<b>2012</b>
Interest earned on U.S. Treasury Securities	\$ 64,104	\$ 217,597
Interest earned on money market mutual funds	103,889	145,936
Interest earned on cash, cash equivalents and short-term investments	1,468,680	1,468,685
Investment expenses	(12,450)	(1,109,544)
<b>Total</b>	<b>\$ 1,624,233</b>	<b>\$ 722,674</b>

# Louisiana Citizens Property Insurance Corporation

## Notes to Statutory Financial Statements

### NOTE 5 – LIABILITIES FOR LOSS AND LOSS ADJUSTMENT EXPENSES

Activity in the liabilities for loss and loss adjustment expenses is summarized as follows (in thousands of dollars):

<i>Years ended December 31,</i>	<b>2013</b>	<b>2012</b>
Balance at January 1	<b>\$ 91,484</b>	<b>\$ 158,535</b>
Incurring related to:		
Current year	<b>56,007</b>	<b>111,677</b>
Prior years		
Policyholder obligations	<b>(3,679)</b>	<b>42,641</b>
Total incurred	<b>52,328</b>	<b>154,318</b>
Paid related to:		
Current year	<b>47,675</b>	<b>101,892</b>
Prior years		
Policyholder obligations	<b>29,837</b>	<b>119,477</b>
Total paid	<b>77,512</b>	<b>221,369</b>
Balance at December 31	<b>\$ 66,300</b>	<b>\$ 91,484</b>

For both catastrophic and non-catastrophic claims, the loss adjusting function is performed by the Company through its employees and through contracted independent adjusting firms. The Company compensates the independent adjusting firms, depending upon the type or nature of the claims, either on per-day rate or on a graduated fee scheduled based on the gross claim amount, consistent with industry standard methods of compensation.

The Company is involved in a number of class action lawsuits and other legal proceedings arising out of various aspects of its business which have been reserved for above. See Note 14 for a description of these class action claims.

### NOTE 6 – AGENT COMMISSIONS AND SERVICING COMPANY FEES

The Company policies are written by various insurance agents licensed in the State of Louisiana. These agents are compensated at commission rates established by the Board and calculated as a percentage of direct written premiums, net of certain surcharges and assessments. Agent commissions included in other underwriting expenses incurred were approximately \$17 and \$18.4 million during 2013 and 2012, respectively.

Additionally, the Company has entered into agreements with two servicing companies to provide underwriting and policy management services. The agreements provide for monthly compensation to the servicing companies based on a "Per Transaction Fee" applied to the number of transactions processed in a monthly cycle. During 2012, the servicing agreements were extended under the same (or similar) terms and expire on March 31, 2014. Servicing company fees incurred and included in other underwriting expenses incurred were approximately \$2.3 and \$3.5 million during 2013 and 2012, respectively.



# Louisiana Citizens Property Insurance Corporation

## Notes to Statutory Financial Statements

### NOTE 7 – CAPITAL AND ACCUMULATED SURPLUS

Changes in balances of surplus from the prior year are, in part, due to collections made by the Company during the normal course of collecting policy component charges. The policy component charge affecting surplus funds is the tax exempt surcharge.

In 2005, the Company suffered losses of \$1.8 billion as a result of hurricanes Katrina and Rita. In 2006, the Company issued \$978.2 million of bonds to pay for these losses. Under LRS 22:2291, the Company may assess, in any one year, up to 10% of the total property premiums assessable state-wide to pay the debt service on the bonds. The total statewide assessable premiums are approximately \$2.3 billion.

Emergency assessments were as follows:

Years ended December 31,		2013	2012
2007	3.6% assessment rate	\$ 78,012,088	\$ 78,012,088
2008	5.0% assessment rate	99,751,686	99,751,686
2009	5.0% assessment rate	116,753,866	116,753,866
2010	4.3% assessment rate	103,046,094	103,046,094
2011	4.0% assessment rate	101,027,353	101,027,353
2012	3.9% assessment rate	92,242,635	92,242,635
2013	3.74% assessment rate	95,503,384	-
		686,337,106	590,833,722
Plus: cumulative bond earnings		48,197,467	46,715,961
Less : cumulative debt service		(576,230,392)	(494,721,607)
Liability for funds restricted for debt service		\$ 158,304,181	\$ 142,828,076

The unassigned deficit approximated \$5.3 and \$36.8 million at December 31, 2013 and 2012, respectively.

# Louisiana Citizens Property Insurance Corporation

## Notes to Statutory Financial Statements

### NOTE 8 – REINSURANCE AGREEMENTS

The Company purchases private reinsurance through Aon Benfield, Inc., as a licensed reinsurance intermediary. The participating reinsurance companies will reimburse the Company, through the intermediary, a specified percentage of losses incurred if a prescribed retention is reached.

The Company purchases reinsurance based on levels of loss. The Company is liable for the first amount of ultimate net loss, shown in the table below as "Company Retention", arising out of each loss occurrence. The reinsurer is then liable, as respects each excess layer, for the amount by which such ultimate net loss exceeds the Company's applicable retention for that layer. However, the liability of the reinsurer under any excess layer of reinsurance coverage provided does not exceed either of the following: (1) the amount shown below as "Reinsurer Per Occurrence Limit" for that excess layer as respects loss or losses arising out of any one loss occurrence, or (2) the amount shown as "Reinsurer's Term Limit" for that excess layer. Each excess layer of reinsurance coverage provided is as follows.

For the year ended December 31, 2013:

	January 1, 2013 to May 31, 2013		June 1, 2013 to December 31, 2013	
	First Excess	Second Excess	First Excess	Second Excess
Company's Retention	\$ 75,000,000	\$ 200,000,000	\$ 75,000,000	\$ 193,000,000
Reinsurer's Per Occurrence Limit	\$ 125,000,000	\$ 125,000,000	\$ 118,000,000	\$ 71,000,000
Reinsurer's Term Limit	\$ 250,000,000	\$ 250,000,000	\$ 236,000,000	\$ 142,000,000
Annual Minimum Premium	\$ 21,000,000	\$ 14,750,000	\$ 15,104,000	\$ 6,390,400
Adjustment Rate	0.120690%	0.084770%	0.009440%	0.039940%

For the year ended December 31, 2012:

	January 1, 2012 to May 31, 2012		June 1, 2012 to December 31, 2012	
	First Excess	Second Excess	First Excess	Second Excess
Company's Retention	\$ 75,000,000	\$ 200,000,000	\$ 75,000,000	\$ 200,000,000
Reinsurer's Per Occurrence Limit	\$ 125,000,000	\$ 300,000,000	\$ 125,000,000	\$ 125,000,000
Reinsurer's Term Limit	\$ 250,000,000	\$ 600,000,000	\$ 250,000,000	\$ 250,000,000
Annual Minimum Premium	\$ 24,000,000	\$ 36,000,000	\$ 21,000,000	\$ 14,750,000
Adjustment Rate	0.125520%	0.188280%	0.120690%	0.084770%

# Louisiana Citizens Property Insurance Corporation

## Notes to Statutory Financial Statements

### NOTE 8 – REINSURANCE AGREEMENTS (CONTINUED)

In the event that all or any portion of the reinsurance under the excess layer above is exhausted by loss, the amount exhausted will be reinstated immediately upon payment of a reinsurance premium. The Company has entered into a Reinsurance Premium Protection (RPP) contract which guarantees payment of the reinstatement premium.

In addition, the Company has additional coverage through two catastrophe bonds. In 2012, the Company purchased coverage through a \$125 million, three year catastrophe bond providing coverage for 63.8% of up to \$389 million in losses in excess of \$193 million covered by retention and traditional reinsurance. In 2013, the Company purchased additional coverage through a \$140 million, four year catastrophe bond providing coverage for 93.3% of up to \$539 million in losses in excess of \$389 million covered by retention, traditional reinsurance and the 2012 catastrophe bond.

The effect of reinsurance on premiums written and earned is as follows:

Years ended December 31,	2013 Premiums		2012 Premiums	
	Written	Earned	Written	Earned
Direct	\$ 179,000,104	\$ 182,527,174	\$ 189,105,672	\$ 189,742,786
Ceded	(66,796,390)	(66,796,390)	(70,417,093)	(70,417,093)
<b>Net premiums</b>	<b>\$ 112,203,714</b>	<b>\$ 115,730,784</b>	<b>\$ 118,688,579</b>	<b>\$ 119,325,693</b>

Amounts recoverable from reinsurers on unpaid losses and loss adjustment expenses are estimated based on the allocation of estimated unpaid losses and loss adjustment expenses among coverage lines. Actual amount recoverable will depend on the ultimate settlement of losses and loss adjustment expenses. Reinsurance contracts do not relieve the Company from its obligation to policyholders. The Company remains liable to its policyholders for the portion reinsured to the extent that any reinsurer does not meet the obligations assumed under their reinsurance agreements.

# Louisiana Citizens Property Insurance Corporation

## Notes to Statutory Financial Statements

### NOTE 8 – REINSURANCE AGREEMENTS (CONTINUED)

The reserve for uncollectable reinsurance recoverables at December 31, 2013 and 2012 were as follows:

<i>December 31,</i>	<b>2013</b>	<b>2012</b>
Alterra Bermuda LTD	\$ -	\$ 8,475
Ariel Reinsurance Co. Ltd	2,256	12,514
Axis Specialty, Ltd	-	22,525
New Castle Reinsurance Company	16,446	-
Colisee Re	-	17,398
Mapfre Re Compania De Reaseguros Sa	-	714
Montpelier Reinsurance LTD	-	20,026
Validus Reinsurance LTD	1,128	6,257
	<b>\$ 19,830</b>	<b>\$ 87,909</b>

### NOTE 9 – LINE OF CREDIT

The Company maintains a line of credit providing for a maximum borrowing of \$125,000,000 and \$75,000,000 at December 2013 and 2012, respectively. Interest on this note is payable monthly at a variable rate based on the 30 day London Interbank Offered Rate (LIBOR) plus 2.0% for the first 90 days following the date drawn and 30 day LIBOR plus 2.35% commencing on the 91<sup>st</sup> day. LIBOR at December 31, 2013 was 0.1672%. The line of credit is secured by all premiums and accounts receivable and revenue from all sources, exclusive of emergency assessments resulting from the 2005 catastrophes, and expires August 15, 2015. There was no balance outstanding on the line of credit at December 31, 2013 or 2012.

### NOTE 10 – BONDS PAYABLE

**Series 2006B** – During April 2006, the Company issued \$678,205,000 of assessment revenue bonds for the purpose of redeeming bond anticipation notes issued to finance, on an interim basis, a portion of the Plan Year Deficit for 2005 in the FAIR Plan resulting from Hurricanes Katrina and Rita, to finance the balance of the Plan Year Deficit for 2005, to make deposits to the Capitalized Interest Fund and the Debt Service Reserve Fund and to pay costs of issuance. The bonds were issued in denominations of \$5,000 or any integral multiple thereof. The 2006B bonds bear interest ranging from 4.00% to 5.25% per annum, payable semiannually on June 1 and December 1 of each year, commencing December 1, 2006. The bonds are secured, together with additional bonds, if any, by pledged revenues, which include primarily the 2005 Emergency Assessments. The bonds are not secured by the full faith and credit of the State of Louisiana. Payment of the principal of and interest on the bonds when due is insured by a bond insurance policy. The bond maturity dates range from June 1, 2009 to June 1, 2023. Bond principal payments of \$39,600,000 and \$37,735,000 were made in 2013 and 2012, respectively.

# Louisiana Citizens Property Insurance Corporation

## Notes to Statutory Financial Statements

### NOTE 10 – BONDS PAYABLE (CONTINUED)

**Series 2006C1 through 2006C4** – During April 2006, the Company issued \$300,000,000 of assessment revenue bonds at auction rate for the purpose of redeeming bond anticipation notes issued to finance, on an interim basis, a portion of the Plan Year Deficit for 2005 in the FAIR Plan resulting from Hurricanes Katrina and Rita, to finance the balance of the Plan Year Deficit for 2005, to make deposits to the Capitalized Interest Fund and the Debt Service Reserve Fund and to pay cost of issuance. The bonds were issued in denominations of \$25,000 or any integral multiple thereof. Prior to their remarketing explained below, interest on the bonds adjusted based upon 35-day Auction Periods. Generally, the interest payment date for an auction period was the business day immediately following each auction period. The length of the auction period with respect to the bonds could be changed at the option of the Company in accordance with the auction agreement. The bonds are secured, together with additional bonds, if any, by pledged revenues, which include primarily the 2005 Emergency Assessments. The bonds are not secured by the full faith and credit of the State of Louisiana. Payment of the principal and interest on the bonds when due is insured by a bond insurance policy. The bonds were reoffered in March 2009 after the Auction Rate Securities market collapsed.

During March 2009, the 2006C1 through 2006C4 series were reoffered in connection with the conversion of the interest rate from the auction mode rate to the long term interest rate and the remarketing of the 2006C bonds. In connection with the conversion and remarketing of the Series 2006C bonds, the original seventh supplement indenture was amended and restated by the amended and restated seventh supplemental indenture of trust dated as of April 1, 2009. The Series 2006B bonds were originally issued for the purpose of providing funds to redeem bond anticipation notes issued to finance, on an interim basis, a portion of the Plan Year Deficit for 2005 in the FAIR Plan resulting from hurricanes Katrina and Rita, to finance the balance of the Plan Year Deficit for 2005, to make deposits to the capitalized interest fund and the debt service reserve fund for the Series 2006C bonds and to pay costs of issuance. The Series 2006C bonds were remarketed in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof. On and after the respective conversion dated of each subseries of the series 2006C bonds, interest on the bonds is payable on each June 1 and December 1 commencing June 1, 2009, until maturity or prior redemption and the bonds were converted to the long-term interest rate on May 6, 2009. The 2006C bonds bear interest ranging from 2.75% to 6.75% per annum. On and after the respective conversion dates of each subseries of the series 2006C bonds, the scheduled payment of principal and interest on such subseries of the bonds, when due, is guaranteed under a financial guaranty insurance policy issued concurrently with the delivery of such subseries of the 2006C bonds by Assured Guaranty Corp. The Series 2006C bonds are subject to optional redemption prior to maturity. In April 1, 2012 the 2006C4 bonds were paid with the issuance of the 2012R bonds proceeds. The bond maturity dates range from June 1, 2009 to June 1, 2026. Principal payments, including the refinanced amount, were \$1,860,000 and \$56,035,000 in 2013 and 2012, respectively.

# Louisiana Citizens Property Insurance Corporation

## Notes to Statutory Financial Statements

### NOTE 10 – BONDS PAYABLE (CONTINUED)

**Series 2012R** –During April 2012, The Company issued \$53,620,000 of assessment revenue refunding bonds in order to advance refund \$54,235,000 principal amount of the Assessment Revenue Bonds Series 2006C4, issued in the original aggregate principal amount of \$75,000,000, and to pay the cost of issuance of the Series 2012R bonds. The bonds were issued in denominations of \$5,000 or any integral multiple thereof. The 2012R bonds bear interest ranging from 2.00% to 5.00% per annum, payable semiannually on June 1 and December 1 of each year, commencing June 1, 2012. The bond maturity dates range from June 1, 2012 to June 1, 2024. Bond principal payments of \$885,000 and \$185,000 were made in 2013 and 2012, respectively.

A schedule of debt service requirements, including bond premiums and discounts, is as follows:

<u>Maturity</u>	
2014	47,042,808
2015	49,111,149
2016	51,208,799
2017	53,410,341
2018-2022	304,338,040
2023-2026	284,583,128

\$ 789,694,265

Net unamortized premium at December 31, 2013 and 2012 was approximately \$16.2 and \$18.9 million, respectively.

The total interest expense on the fixed rate bonds for the years ended December 31, 2013 and 2012 was approximately \$39 and \$46 million, respectively, including annual amortized premium of \$2.8 and \$2.9 million, respectively, and is included in "Interest expense, net" in the accompanying Statutory Statement of Operations.

### NOTE 11 – RETIREMENT PLAN

Prior to September 1, 2008, the Company sponsored a non-contributory defined benefit pension plan covering all employees that were hired prior to April 1, 2008, through a services agreement with Property Insurance Association of Louisiana (PIAL) in which retirement expenses were previously reimbursed to PIAL. As of September 1, 2008, the Company froze its defined benefit pension plan and converted it to a defined contribution plan. The Company contributes 11% of each employee's wages to the defined contribution plan. Contributions are expensed each month and the Company carried no assets or liabilities for the defined contribution plan on its statement of admitted assets, liabilities and surplus. The Company's contribution to the plan was approximately \$666,151 and \$639,624 in 2013 and 2012, respectively.

In addition, the Company sponsors a contributory 401k plan covering eligible employees for which the Company matches 75% of employee contributions up to a maximum of 6% of eligible compensation. Contributions by the Company to the 401k plan during 2013 and 2012 totaled \$183,166 and \$189,473, respectively.

# Louisiana Citizens Property Insurance Corporation

## Notes to Statutory Financial Statements

### NOTE 12 – LEASES

The Company is obligated under certain non-cancelable operating leases for office space that will expire in September 2023. The future minimum payments as of December 31, 2013 follow:

*Years ending December 31,*

<b>2014</b>	<b>\$ 495,130</b>
<b>2015</b>	<b>468,204</b>
<b>2016</b>	<b>473,452</b>
<b>2017</b>	<b>478,698</b>
<b>2018</b>	<b>483,943</b>
<b>2019-2023</b>	<b>2,369,881</b>
	<b>\$ 4,769,307</b>

Rental expense for 2013 and 2012 was approximately \$617,060 and \$454,422, respectively.

### NOTE 13 – RECONCILIATION OF GAAP AND STAT BASES OF ACCOUNTING

Accounting principles generally accepted in the United States of America (GAAP basis) differ in certain respects from the accounting practices prescribed or permitted by insurance regulatory authorities (statutory basis). A reconciliation between the change in net assets and the deficiency in net assets as reported under GAAP basis and statutory basis follows:

<i>Years ended December 31,</i>	<b>2013</b>	<b>2012</b>
Change in net assets - GAAP basis	<b>\$ 79,332,593</b>	<b>\$ 1,881,351</b>
Adjustments to:		
Policy acquisition costs	<b>352,706</b>	<b>63,713</b>
Pension and employee benefit plan expense	<b>(198,607)</b>	<b>(202,232)</b>
Bond issuance costs	<b>14,107,579</b>	<b>780,876</b>
Excess emergency assessments	<b>(57,821,105)</b>	<b>(46,491,028)</b>
Allowance for doubtful accounts	<b>(3,089,090)</b>	<b>(165,710)</b>
Other	<b>-</b>	<b>69,675</b>
Tax exempt surcharge	<b>(5,799,207)</b>	<b>(6,064,743)</b>
Net loss - Statutory Basis	<b>\$ 26,884,875</b>	<b>\$ (50,128,098)</b>

# Louisiana Citizens Property Insurance Corporation

## Notes to Statutory Financial Statements

### NOTE 13 – RECONCILIATION OF GAAP AND STAT BASES OF ACCOUNTING (CONTINUED)

<i>December 31,</i>	<b>2013</b>	<b>2012</b>
Total deficiency in net assets - GAAP basis	<b>\$(649,660,580)</b>	<b>\$(728,993,174)</b>
Adjustments to:		
Non-admitted assets	<b>(14,544,921)</b>	<b>(13,394,440)</b>
Policy acquisition costs	<b>(8,926,600)</b>	<b>(9,279,305)</b>
Other accrued liabilities	<b>163,019</b>	<b>915,757</b>
Bond issuance costs	<b>-</b>	<b>(14,107,579)</b>
Excess emergency assessments	<b>(158,304,181)</b>	<b>(142,828,076)</b>
Allowance for doubtful accounts	<b>1,096,570</b>	<b>3,666,430</b>
Assessments receivable	<b>824,914,781</b>	<b>867,259,781</b>
Provision for reinsurance	<b>(19,830)</b>	<b>(87,909)</b>
Accumulated (deficit) surplus - Statutory basis	<b>\$ (5,281,743)</b>	<b>\$ (36,848,515)</b>

### NOTE 14 – COMMITMENTS AND CONTINGENCIES

The Company is involved in certain litigation and disputes incidental to its operations. In the opinion of management, after consultation with legal counsel, there are substantial defenses to such litigation and disputes and any ultimate liability, in excess of reserves resulting there from, will not have a material adverse effect on the Company's financial condition or results of operations.

The Company is also involved in other potentially significant litigation described below; any of which could have a material adverse effect on the financial condition or results of operations. These matters raise difficult and complicated factual and legal issues and are subject to many uncertainties and complexities, including the underlying facts of each matter; novel legal issues; variations between jurisdictions in which matters are being litigated, heard, or investigated; differences in applicable laws and judicial interpretations; the length of time before many of these matters might be resolved by settlement, through litigation or otherwise; and the current legal environment faced by large corporations and insurance companies.

The outcome of these matters may be affected by decisions, verdicts, settlements and the timing of such in other individual and class action lawsuits that involve the Company, other insurers, or other entities and by other legal, governmental, and regulatory actions that involve the Company, other insurers, or other entities. The outcome may also be affected by future state legislation, the timing or substance of which cannot be predicted.



# Louisiana Citizens Property Insurance Corporation

## Schedule I – Summary Investment Information December 31, 2013

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### NOTE 14 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

In lawsuits, plaintiffs seek a variety of remedies. In some cases, the monetary damages sought include punitive or treble damages. Often specific information about the relief sought, such as the amount of damages is not available. When specific monetary demands are made, they are often set just below a state court jurisdictional limit in order to seek the maximum amount available regardless of the specifics of the case.

For the reasons previously specified, it is often not possible to make meaningful estimates of the amount or range of loss that could result from the known and unknown matters described. The Company reviews these matters on an ongoing basis and follows appropriate accounting guidance when making accrual and disclosure decisions. When assessing "reasonably possible" and "probable" outcomes, the Company bases its decisions on its assessment of the ultimate outcome following all appeals. Additionally, in instances where a judgment, assessment or fine has been rendered against the Company, there is a presumption that criteria in reaching a "reasonably possible" and "probable" outcome has been met. In such instances, the amount of liability recorded by the Company will include the anticipated settlement amount, legal costs, insurance recoveries and other related amounts and take into account factors such as the nature of the litigation, progress of the case, opinions of legal counsel, and management's intended response to the litigation, claim, or assessment.

Due to the complexity and scope of the matters disclosed below and the many uncertainties that exist, the ultimate outcome of these matters cannot be reasonably predicted. In the event of an unfavorable outcome in any one or more of these matters, the ultimate liability may be in excess of amounts currently reserved.

A summary of potentially significant litigation follows:

***Oubre v. Louisiana Citizens Property Insurance Corporation.*** The plaintiffs in this suit allege that the Company failed to timely initiate loss adjustment as required by Louisiana statutory law exposing the Company to mandatory penalties in the amount of \$5,000.00. On July 23, 2012 the Company settled the majority of this class action suit with a payment of \$104 million to the plaintiff counsel for distribution to the current class members. The Company entered into a settlement with the class for the remaining Oubre claims. At December 31, 2013, the Company has a reserve of \$46 million for this case for resolution of the remaining claims which the Company believes is adequate. The reserve is included in loss and loss adjustment reserves on the accompanying statement of statement of admitted assets, liabilities, surplus and other funds.

# Louisiana Citizens Property Insurance Corporation

## Schedule I – Summary Investment Information December 31, 2013

### NOTE 14 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

***Thibodeaux v. Louisiana Citizens Property Insurance Corporation.*** On December 12, 2013 the Louisiana Department of Insurance instructed the Company to refund a \$65.00 application fee to all policy holders that paid the fee prior to a change the Company made to disclose the \$65.00 fee on the insurance policy. The Louisiana Department of Insurance ruled that the Company violated La. RS. 22:855 by failing to disclose the application fee on the declarations page or elsewhere in the policy. The Company was ordered to refund the \$65.00 application fee to individuals that paid the \$65.00 application fee prior to the time the Company changed their process to show the application fee on the insurance policy. At December 31, 2013, the Company has a reserve of \$16 million for this matter, which the Company believes is adequate. This reserve is included in accounts payable and other accrued expenses on the accompanying statement of admitted assets, liabilities, surplus and other funds.

***Orrill v. Louisiana Citizens Property Insurance Corporation.*** The plaintiffs in this suit allege the Company failed to make timely payments after satisfactory Proof of Loss was furnished by the insured. This class contains approximately 10,000 members, but not all of them have been determined to be eligible to participate in the class. The Company entered into a settlement agreement with the class in which it agreed to pay approximately \$20 million in settlement of all claims. The Company had a reserve of \$19.3 million for this case at December 2012 and paid \$18.8 million towards the settlement with the remainder held for settlement costs. As a result of the settlement process, management believes that this payment was sufficient to satisfy all claims and, therefore, no additional reserve was considered necessary at December 31, 2013.

The Company is involved in a lawsuit with Louisiana Road Home Corporation where the plaintiff alleges that Citizens failed to include Road Home as a payee on some claims payments resulting from Hurricane Katrina. Citizens settled the lawsuit for \$2.0 million with a payment to take place at a later date. The Company has a reserve of \$2.0 million for this lawsuit.

Various other lawsuits against the Company have arisen in the course of the Company's business, including approximately The Company believes it has established appropriate reserves for all lawsuits, in addition to class action claims described above. The Company has no assets that it considers to be impaired.

In addition to claims under the insurance policies it issues, the Company is potentially exposed to various risks of loss, including those related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As of the end of 2013, the Company had insurance protection in place from various commercial insurance carriers covering various exposures, including workers' compensation, property loss, employee liability, general liability, and directors and officers' liability. Management continuously revisits the limits of coverage and believes that current coverage is adequate. There were no significant reductions in insurance coverage from the previous year.

# **Louisiana Citizens Property Insurance Corporation**

## **Schedule I – Summary Investment Information December 31, 2013**

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### **NOTE 15 – DEPOPULATION**

The Louisiana State Legislature created the Company to operate insurance plans as a residual market for residential and commercial property. The legislature further intended that the Company work toward the ultimate depopulation of these residual market plans also known as the Coastal Plan and the FAIR plan. To encourage the ultimate depopulation of these residual market plans, the Louisiana Citizens Property Insurance Corporation Policy Take-Out Program was created.

Under the take-out plan guidelines, not less than once per calendar year, the Company will offer its in-force policies for removal to the voluntary market. The Company will include offers for depopulation policies with all available geographic and risk characteristics that serve to reduce the exposure of the corporation. Each insurer admitted to write homeowners insurance or insurance insuring one- or two-family owner occupied premises for fire and allied lines or insurance which covers commercial structures in the state of Louisiana may apply to the Company to become a take-out company. Insurers will be approved to participate in the depopulation of the Company based on statutory guidelines set forth in accordance with LRS 22:2314 (C).

Policies may be removed from the Company at policy renewal or as part of a bulk assumption. In an assumption, the take-out company is responsible for losses occurring from the assumption date through the expiration of the Company's policy period.

Unearned premiums remitted to take-out companies pursuant to assumption agreements is reflected as a reduction in "Premiums earned" in the Statutory Statements of Income and totaled \$14,040,491 and \$8,645,118 for the years ended December 31, 2013 and 2012, respectively.

The Company provides administration services with respect to the assumed policies. All agreements provide for the take-out company to adjust losses. The take-out company pays a ceding commission to the Company to compensate the Company for policy acquisition costs, which includes servicing company fees and agent commissions. While the Company is not liable to cover claims after the assumption, the Company continues to service policies for items such as policy holder endorsements or cancellation refunds. Should the Company process and provide a refund to policyholders, such amount is subsequently collected from the take-out company. At December 31, 2013 and 2012, assumed premiums in the amount of \$ -0- and \$7,154, respectively, were due from certain take-out companies.

### **NOTE 16 – SUBSEQUENT EVENTS**

The Company evaluated all events or transactions that occurred after December 31, 2013 through May 30, 2014, the date the Company issued these financial statements. During this period, except as disclosed in Note 14, the Company did not have any material recognizable subsequent events that required recognition in the disclosures to the December 31, 2013 financial statements.

# Louisiana Citizens Property Insurance Corporation

## Schedule I – Summary Investment Information December 31, 2013

	Gross investment holdings		Admitted assets as reported in the annual statement	
	Amount	Percentage	Amount	Percentage
Bonds:				
Issue by U.S. government sponsored agencies	\$ -	-	\$ -	-
Equity interests:				
Investments in mutual funds	176,757,647	61.992%	176,757,647	61.992%
Cash, cash equivalents, short-term investments	108,372,222	38.008%	108,372,222	38.008%
Total invested assets	\$ 285,129,869	100.000%	\$ 285,129,869	100.000%

# Louisiana Citizens Property Insurance Corporation

## Schedule II – Supplemental Investment Risk Interrogatories December 31, 2013

The following is a summary of certain statutory financial data included in the supplemental investment risk interrogatories.

1. Total admitted assets as reported on the statutory statement of admitted assets, liabilities and accumulated deficit \$1,156,159,636
2. By investment category, the ten largest exposures to a single issuer/borrower/investment, excluding (i) U.S. government, U.S. government agency securities, and those U.S. government money market funds listed in the Appendix to the *SVO Purposes and Procedures Manual*, as exempt, (ii) property occupied by the Company, and (iii) policy loans.

Issuer	Description of Exposure	Amount	Percentage of total admitted assets
Federated Treas.Oblig Fund 398	CS - Money Market Mutual	\$ 125,965,494	10.9%
Regions Trust Cash Sweep	CS-Money Market Mutual	\$ 50,792,153	4.4%
Repurchase Agreement w/ Societe	Short-Term Investments	\$ 28,298,272	2.4%

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

Bonds	At Year-end	
	1	2
3.01 NAIC-1	\$ 28,298,272	2.4%

Interrogatories 4 through 19 are not applicable to the Company.

# Louisiana Citizens Property Insurance Corporation

## Schedule II – Supplemental Investment Risk Interrogatories (Continued) December 31, 2013

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	At Year-end		At End of Each Quarter		
	1	2	1st Quarter 3	2nd Quarter 4	3rd Quarter 5
20.02 Repurchase agreements	\$ 28,298,272	2.4%	\$ 28,298,272	\$ 28,298,272	\$ 28,298,272

Interrogatories 21 through 23 are not applicable to the Company.